

ROUTING AND RECORD SHEET

SUBJECT: (Optional)

Digital Equipment Corporation

FILE: 45-1

FROM:

Richard J. Kerr
Deputy Director for Administration

EXTENSION

NO.

DDA 86-0354

DATE

19 February 1986

STAT

TO: (Officer designation, room number, and building)

DATE

RECEIVED

FORWARDED

OFFICER'S INITIALS

COMMENTS (Number each comment to show from whom to whom. - Draw a line across column after each comment.)

1. D/OIT
2D 00 HQ

Mr. Donnelly,

2.

Mr. Kerr received a call from Cliff Mauton re the attached. She invited Mr. Kerr to attend a symposium in the Boston area 24-28 February. I told Ms. Mauton you would be out of town. She advised that she had been in touch with our people in OIT as well as

STAT

5.

Mr. Kerr asked that I pass the attached to you in the event you would like to contact Ms. Mauton.

6.

7.

8.

9.

10.

11.

/s,
O/DDA

STAT

Attachment

O/DDA;rf (20 Feb 86)

Distribution:

Orig - Addressee

1 - DDA Subject

1 - DDA Chrono

1 - RJK Chrono

Mr Kerr,

You may find the
attached article from
the "Boston Globe"
interesting - particularly
the chart on the
second page.

Cliff Manton

digital

CLIFF MAUTON

DIGITAL EQUIPMENT CORPORATION
8400 CORPORATE DRIVE, LANDOVER, MARYLAND 20785
731-9352

DIGITAL VS. IBM

After years of dancing around two big computer makers are going head to head

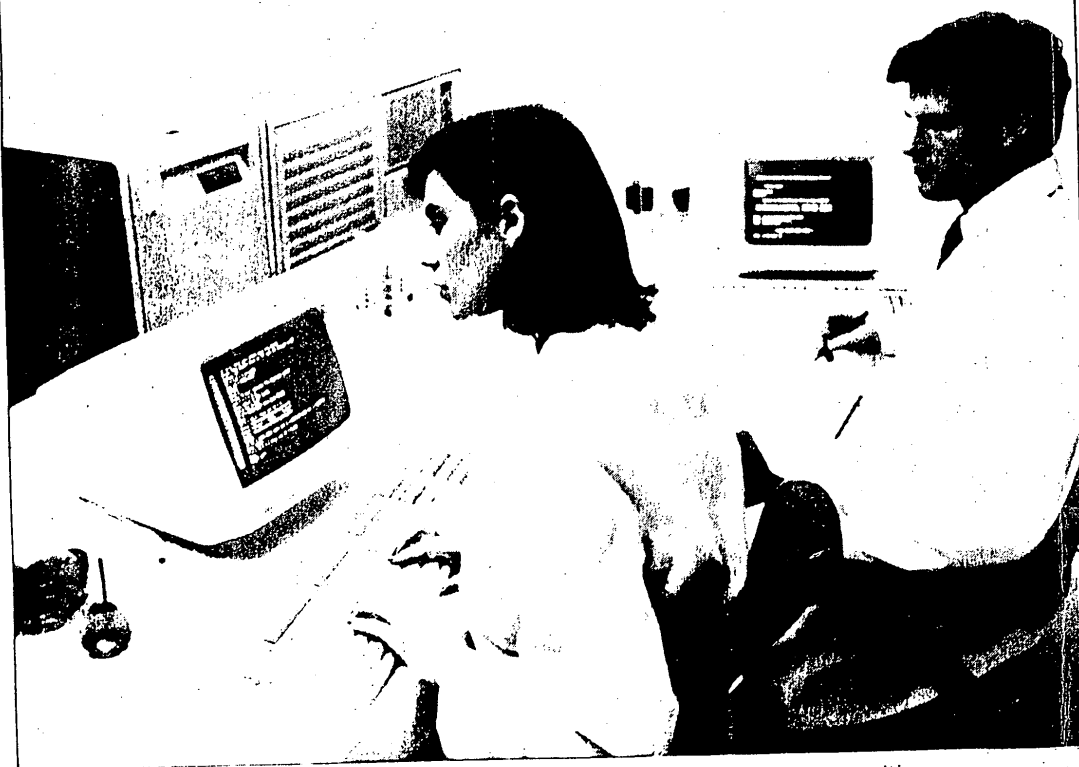
By Ronald Rosenberg
Globe Staff

On the face of it, it's not even a contest. In the big blue trunks, weighing in at \$50 billion in sales a year, is the undisputed champion, International Business Machines Corp. It employs more than 400,000 people worldwide and comes with a marketing reputation unmatched in the industry.

In the silver trunks, weighing in at about one-seventh the size, is the No. 1-ranked challenger, Digital Equipment Corp. So massive is the champion, that its after-tax earnings of \$6.56 billion last year were about equal to the challenger's \$6.69 billion in revenues for fiscal 1985. In fact, IBM spends more on educating and training its people — more than \$600 million in 1984 — than Digital's \$447 million in profits last year.

Despite the wide gap, things are changing — both in the industry they dominate and in the competition between the two top-ranked rivals. After years of dancing around each other, delivering products and services often to different parts of the same company, IBM and Digital are increasingly going head to head.

The match-up offers tremendous opportunities for Digital, Massachusetts largest computer company. But it also offers the same dangers so many of IBM's competitors have found in the past. This year, with each company offering products aimed at the other, should provide a gauge of which way the battle is headed.



Digital's newest computer, the VAX-8800, is aimed at the scientific and engineering communities.

DIGITAL, Page 47

IBM and Digital are increasingly going head to head

DIGITAL

Continued from Page 41

"Digital has carved out a position in the marketplace that makes it, if anything, the only company in the computer industry to be relatively protected from IBM's forays," said Howard Anderson, president of the Yankee Group, a Boston market research firm.

Digital and Electronic Data Systems, the computer services firm recently acquired by General Motors, are the only two companies that pose any serious challenge to IBM, Anderson said.

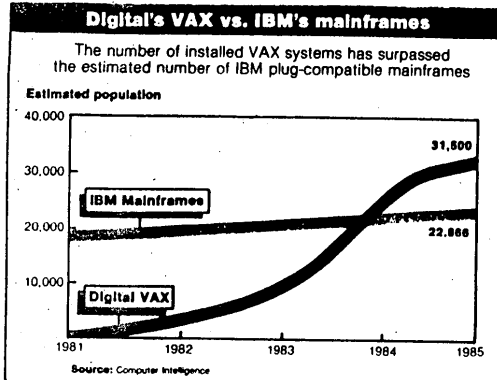
Adds Stephen P. Cohen, who follows IBM for the Gartner Group, "Digital can make better inroads against IBM than anyone else." "The mid-range products IBM has don't stand up to Digital."

IBM sells 60 percent of all computers sold in the world. It has made its living through a cozy relationship of selling multi-million mainframes to the data processing department and the manager of information services. "No one ever got fired for recommending IBM," is the well-worn saying.

Digital's hallmark has been providing small- and medium-size computers to the technical community. The research department, engineering laboratory and manufacturing floor - areas away from headquarters - are where Digital shines.

But in the industry as a whole, and the IBM-Digital competition in particular, the lines are breaking down. Each is poaching on the other's territory. Last week IBM made its most ambitious foray into Digital's turf with an under \$20,000 workstation, called the RT, that is aimed at the technical community.

If it is to grow, Digital has no choice but to pursue the computer giant's data and information processing arenas. It is beefing up its software and servicing muscle



and looking more like IBM all the time.

"Digital can increase the size of the wedge into IBM's territory this year," predicts Patty Seybold, the Boston-based editor of the Seybold Report on Office Systems.

"In the office automation arena that I follow, Digital is making life harder for IBM. But the shortcomings for Digital is that they have not been able to get customers to feel as confident with them as they do with IBM. Big Blue really lavishes service and support. DEC does a good job but it doesn't go overboard the way IBM does."

Indeed, the distinguishing characteristic between the two companies is that IBM puts marketing first and technology second - just the opposite of Digital. By making customers feel comfortable, albeit at a relatively steep price, IBM can sometimes sell older computer equipment, yet always guarantee that it will be promptly serviced.

Digital, on the other hand, has been a product-oriented company that sold to a sophisticated audi-

ence that added its own software and required relatively few services. That was fine for the days when it competed largely with Data General, but to compete against IBM it has had to change its stripes.

"Some customers may be enamored by bit and bytes in the short term but not for the long pull," said F.G. (Buck) Rodgers, who spent 34 years at IBM, most recently as vice president of marketing. "They want a market-driven company that can deliver solutions more than one that is product oriented."

To cultivate the warm and fuzzy feeling IBM customers know so well, Digital last week announced a series of steps that emulates Big Blue. For starters, it will extend warranties on selected new models to 12 months from three months. Digital also promised a quicker response time to fix any problems in its VAX-8800. Digital's newest and biggest computer. Guaranteed response to repair equipment will be made within

two hours instead of four hours.

Perhaps Digital's most notable accommodation to IBM's ways was its decision to lease a wide range of software for new computers, including the VAX-8800 - its largest computer that when clustered together rivals the performance of IBM's biggest machine, known as the Sierra, or 3090 series.

Instead of spending, for example, \$12,433 for a fully paid license to run COROL on the VAX-8200, one the newer Digital mid-range computers, users can spend \$344 per month, or \$4,128 annually. By comparison, COROL software on the IBM 4361, a mid-range computer, costs \$365 per month.

This software rental strategy appeals to large corporations that are looking to lower their first-year costs of ownership, preferring to spread the costs over many years. It also promises to provide Digital with more money from software - an advantage IBM has enjoyed for years.

As always, IBM will not talk about its competition. Kenneth Olsen, Digital's president and founder, on the other hand, is quick to point to IBM's weaknesses. "They don't have the cohesive strategy we do," he said recently.

What Digital has is a family of computers that can use all the same software and communicate between computers as well as to IBM computers and other brands. Digital's extensive communications capabilities and well-defined product line is how the company plans to compete against IBM and others.

IBM, on the other hand, continues to dominate the high-end of the business with 70 percent of the mainframe market and the low-end of the industry, with its standard-setting Personal Computer. But at the sprawling mid-

range area, dominated by Digital, Data General, Wang Laboratories, Prime Computer, Hewlett-Packard and Apollo Computer, IBM is relatively weak.

IBM can be expected to come hard at the competition, at Digital in particular.

"IBM has been very helpful to us," said Alexander D. Jacobson, president of Inference Corp., a Los Angeles developer of artificial intelligence systems and a Digital customer that is also now buying from IBM. "They have promised to give us technical support and help us with any problems we have in hardware and software."

This year should tell a lot. "If marketing makes the difference, you have to put your money on IBM," said Eugene Manno, a group vice president of Honeywell's small computers and systems group in Billerica. "Digital, however, has excellent hardware, is moving in the right direction and has earliest part of the new window of opportunity. To that extent it has an early edge."

"But IBM has a sales force that is tough to beat. With 11,000 people in blue suits and white shirts that have been trained for 18 months, they have quite an army."

E.B. HORN SELL WITH COMPLETE CONFIDENCE
Jewelers since 1830
IMMEDIATE CASH
No charge for appraisals

WE BUY DIAMONDS, PRECIOUS STONES, ANTIQUES, ESTATES, GOLD & SILVER AT HIGHEST MARKET PRICES.

Serving individuals, trustees, banks & attorneys for over 146 years. Our gemologist will visit your home, or you may mail your jewelry to us.

*** E.B. HORN** TELEPHONE (617) 542-3902
429 WASHINGTON ST. BOSTON, MA



OFFER